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STATE FOR NEA/ELA, NEA/RA, EEB/IFD
USAID FOR ANE/MEA MCCLOUD AND RILEY
TREASURY FOR MATHIASON AND HIRSON
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SUBJECT: EGYPT: NEXT STEPS ON ASSISTANCE

REF: CAIRO 3365

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¶1. (SBU) Visiting EEB PDAS Elizabeth Dibble met with Fayza Aboul Naga, Minister of International Cooperation to discuss the future of U.S. assistance. USAID Director Hilda Arellano also attended. Aboul Naga said the GOE wants to move toward a "sustainable and predictable" partnership based on "trade not aid." The GOE worked diligently on the endowment/debt swap proposal Aboul Naga presented in Washington. It is in both our interests to pursue the proposal, as it will improve Egyptian public opinion toward the U.S. Aboul Naga also noted the positive response on the Hill to the proposal. Her interlocutors, including Congressman Ackerman, requested more information on the proposal and, she asserted, were surprised about the level of Egyptian debt service paid to the U.S.

¶2. (SBU) Dibble said the U.S. understands Egypt's desire for predictability concerning assistance funds and would provide a formal response to the Egyptian proposal soon. However, the proposal will be difficult to accommodate. In response to Aboul Naga's point about Egypt's debt service to the U.S., she noted that total U.S. assistance to Egypt, including FMF, is still far greater than Egypt's debt payments to the U.S. Moreover, an endowment/debt swap agreement would require Congressional approval, something we can not guarantee. Dibble also expressed concern about funding for an endowment, as ESF will be cut to \$200 million annually over the next five years. Aboul Naga was especially concerned with this latter point. She had told the Egyptian press upon her return from Washington that ESF cuts were unacceptable to Egypt, as \$200 million would represent a 50% cut all at once, while the current agreement reduces ESF by 50% over ten years. Aboul Naga is concerned that the proposed cuts will only fund ongoing USAID bilateral projects and leave nothing to shape the more "mature" partnership. Moreover, she claimed, FMF money flows back to the U.S. as equipment purchases and should not be counted as part of what Egypt receives.

¶3. (SBU) Dibble asked if the unobligated balances of the existing cash transfer program came up in discussions on the Hill. Aboul Naga said it had not, but made clear that the GOE was making progress on the Financial Sector (FS) MOU benchmarks, many of which would be met in 2008. Dibble suggested creation of a Cairo-based bilateral steering committee that would comprise all the Egyptian ministries with responsibility for implementing both the FS MOU and the new Human Development MOU. Regular meetings of such a committee with USAID and Embassy Cairo staff would ensure coordination and timely reporting on progress toward meeting the benchmarks. Aboul Naga agreed and said the GOE would welcome a chance to increase the flow of information from both sides.

¶4. (SBU) In a separate meeting, Dibble raised the idea of a

bilateral steering committee with Manal Hussein, Deputy Minister of Finance, who was also supportive of the idea. Hussein noted such a committee would increase GOE intra-agency communication, which was lacking. She noted, for example, that the Ministry of Finance had not participated in development of the final Egyptian endowment/debt swapping proposal before it was presented by Aboul Naga in Washington.

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